

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION
Water Branch

RESOLUTION NO. W-4575
December 15, 2005

RESOLUTION

(RES. W-4575), ARROWHEAD MANOR WATER COMPANY, INC. (Arrowhead). ORDER AUTHORIZING AN OFFSET RATE INCREASE OF \$29,166, OR 8.1%, IN ADDITIONAL REVENUE DUE TO INCREASED CONTRACT WORK AND PURCHASED WATER EXPENSES.

SUMMARY

By Advice Letter (AL) No. 59-W, filed on October 19, 2005, Arrowhead seeks to increase rates by \$29,166, or 8.1%, to recover expenses incurred with contract work and purchased water expenses that have not been authorized in rates. The requested increase will not result in a rate of return greater than the last authorized for Arrowhead. This resolution grants Arrowhead's request.

BACKGROUND

Arrowhead currently serves approximately 311 flat-rate and metered-rate customers in the unincorporated community of Cedar Glen and vicinity, one mile southeast of Lake Arrowhead, San Bernardino County.

Arrowhead requests authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates by \$29,166 for costs associated with contract work and purchased water expenses incurred from January 1, 2005 to June 30, 2005, and not currently authorized in rates. Arrowhead is requesting to recover the \$29,166 over six bi-monthly billing periods at the rate of \$15.63 per customer, per period.

The present rates of Arrowhead became effective on August 30, 2005, pursuant to Resolution (Res.) No. W-4550, which authorized an offset rate increase of \$91,952, or 25.5%, in additional offset revenue due to contract work and purchased water expenses incurred from January 1, 2004 to December 31, 2004. The last General Rate Case (GRC) increase was authorized by Decision (D.) 02-07-009 and became effective on August 19, 2002.

In late 1999, the Water Division converted Arrowhead's draft advice letter GRC increase request into a formal application (A.99-10-027). An interim decision was issued (D.00-07-036) which dealt specifically with GRC issues.

On March 16, 2000, the Commission issued Investigation (I.) 00-03-016, to examine allegations against Arrowhead of Safe Drinking Water Bond Act (SDWBA) Loan improprieties, non-compliance with Commission and Department of Health Services (DHS) requirements, and failure to resolve customer complaints and inquiries.

Decision (D.) 00-07-036, dated July 20, 2000, authorized an interim GRC and ordered Arrowhead to establish a contract work memorandum account and a purchased water memorandum account and to begin tracking expenses in these accounts once the rate increase became effective. Arrowhead was directed to file advice letters by January 31 and July 31 each year seeking Commission approval for a customer billing surcharge/surcredit to collect/refund the accumulated amounts by which the actual, and reasonable, purchased water and contract work expenses in the memorandum accounts of the preceding time period deviated from those authorized in rates.

D.02-07-009, dated July 17, 2002, closed I.00-03-016, authorized a final rate increase, reset the purchased water balancing account to zero, and ordered Arrowhead to continue to maintain both the contract work and purchased water costs memorandum accounts under the conditions and procedures established in D.00-07-036. D.02-07-009 also directed the Commission's General Counsel to petition the Superior Court to appoint a receiver for Arrowhead.

On May 29, 2003, the Superior Court of San Bernardino County appointed John W. Richardson as Receiver for Arrowhead. Mr. Richardson has been working with Arrowhead's existing employees to operate the water system until he can arrange for its sale. Mr. Richardson has indicated that a prospective sale is in progress with the County of San Bernardino (County) and that Arrowhead is currently under an "exclusive right to negotiate" with the County. The exclusive right status is set to expire on December 1, 2005.

On October 25, 2003, part of San Bernardino County was devastated by a fire that lasted about ten days. Due to the fire, Arrowhead lost over 300 active service connections and spent several months in 2004 replacing and/or repairing the water plant destroyed by the fire. Arrowhead did not seek recovery for expenses related to the fire because most of this work was financed with insurance proceeds. Prior to the fire, Arrowhead was considered a Class C Water Utility

because it had over 500 service connections. Now that Arrowhead has less than 500 service connections it is now considered a Class D Water Utility.

On January 8, 2004, the Commission, in Res. W-4450, authorized Arrowhead to utilize the SDWBA Loan surcharge funds of \$40,000, on an emergency basis, for purchased water and emergency repair expenses. It was envisioned that Federal Emergency Management Agency's funds, or any insurance awards, when available, could be utilized to replace the amount of the surcharge funds used. Arrowhead was forced to purchase water because of severe fire damage to its pump and wells.

NOTICE AND PROTESTS

Notice of the proposed rate increase was published in a local newspaper of general circulation on October 27, 2005. No letters objecting to the increase have been received by the Water Division.

DISCUSSION

The Water Division has received three billing complaints against Arrowhead during the last twelve months. All complaints have been resolved.

Service appears to be satisfactory at this time and there does not appear to be any service problems requiring corrective action. The DHS has confirmed that Arrowhead does not have any outstanding water testing or compliance issues. However, there are three compliance issues with Commission decisions that are noteworthy. These issues are discussed below.

Ordering Paragraph (OP) No. 4, of D.00-07-036, required Arrowhead to file advice letters by January 31 and July 31 each year for recovery of its purchased water and contract memorandum accounts (for July 1 to December 31 and for January 1 to June 30 expenses, respectively). An historical review of Arrowhead's filings show that it has consistently requested recovery of expenses in these accounts, from July 1, 2002 until the present, but has not consistently met the filing deadlines set by this Commission. Because of this, Arrowhead is reminded of the filing deadlines.

The standard filing cycle for a general rate increase filing is once every three years, or, if the need is greater, the utility may file once a year. It was never the intent of this Commission to allow Arrowhead to avoid a general rate increase filing by ordering the memorandum account recovery filings in D.00-07-036. Had Arrowhead remained on the standard filing cycle, it would have filed a request in early 2005, if not sooner. While the Commission recognizes the

receivership status, the tragic fire event in 2003, and the prospective sale with the County, it also recognizes the need for current rates. Because of that, the Commission shall order Arrowhead to file a GRC within 180 days of this resolution if the sale to the County fails to materialize. Arrowhead is strongly encouraged to contact the Water Division and request participation in the Water Division's Outreach GRC Program. Arrowhead was contacted regarding a GRC and the outreach program and has agreed to contact the Water Division if the sale to the county does not reach fruition.

Arrowhead appears to not be in compliance with OP No. 3 and No. 9, of D.02-07-009, which address the SDWBA Loan surcharges and a comprehensive, long-range plan for system infrastructure and operational improvements. OP No. 3 and No. 9 state:

"3. The general rate case increases and Safe Drinking Water Bond Act (SDWBA) loan surcharges authorized in this order shall expire automatically 45 days after each semi-annual California Department of Water Resources (DWR) loan payment is due, if not extended. Arrowhead is authorized to submit an advice letter not sooner than the date the payment is actually made and not later than 30 days after the payment is due to reset the expiration clock for an additional six months (i.e., a new expiration date 45 days after the next semi-annual payment is due), after which the process shall be repeated for each subsequent payment due date until further order of the Commission. Those advice letters shall become effective upon Water Division's confirmation with DWR that DWR has received the corresponding semi-annual payment in full.

"9. Within nine months of the effective date of this decision Arrowhead shall prepare and submit to the Commission's Water Division a comprehensive, long-range plan for system infrastructure and operational improvements. The plan shall include cost estimates and identify sources of funding. If low interest rate state funding is not available, the plan shall identify realistic, alternative sources. If Arrowhead is unable to obtain financing, that may be taken as an additional indication that it is financially unable or unwilling to adequately serve its ratepayers."

While the Commission once again recognizes the events that have occurred since Arrowhead was ordered, it also recognizes Arrowhead's responsibility for loan repayments and service improvements. In this regard, the Commission will repeat its order to Arrowhead regarding these items. The Commission will also

require Arrowhead to report the results of the SDWBA Loan surcharge diversion to the Water Division within 90 days of the effective date of this resolution.

Arrowhead's AL #59-W has been reviewed by the Water Division and has been found to be reasonable.

COMMENTS

This is an uncontested matter subject to the public notice comment exclusion provided in the PU Code Section 311 (g) (3).

FINDINGS

1. Arrowhead Manor Water Company, Inc. recorded a total of \$29,166 of expenses in its purchased water and contract memorandum accounts from January 1, 2005 to June 30, 2005. These expenses were in excess of those currently authorized in rates over the same period of time.
2. Arrowhead Manor Water Company, Inc. requests a surcharge of \$93.78 per customer to be recovered over six bi-monthly billing periods at the rate of \$15.63 per customer, per period.
3. Decision 00-07-036 authorized Arrowhead Manor Water Company, Inc. to file advice letters by January 31 and July 31 each year seeking Commission approval for a customer billing surcharge/surcredit to collect/refund the accumulated amounts by which its actual and reasonable purchased water and contract repair work expense in the memorandum accounts of the preceding time period deviated from those authorized in rates.
4. Decision 02-07-009 authorized a final rate increase, reset the purchased water balancing account to zero, ordered Arrowhead Manor Water Company, Inc. to continue to maintain both the contract work and purchased water costs memorandum accounts under the conditions and procedures established in D.00-07-036, and directed the Commission's General Counsel to petition the Superior Court to appoint a receiver for Arrowhead Manor Water Company, Inc.
5. On May 29, 2003, the Superior Court of San Bernardino County appointed John W. Richardson as Receiver for Arrowhead Manor Water Company, Inc.

6. Due to the fires in late 2003, Arrowhead Manor Water Company, Inc. lost over 300 active service connections and spent several months in 2004 replacing and/or repairing the water plant destroyed by the fire.
7. Now that Arrowhead Manor Water Company, Inc. has less than 500 service connections it is now considered a Class D Water Utility.
8. Arrowhead Manor Water Company, Inc. was forced to purchase water because of severe fire damage to its pump and wells.
9. Resolution W-4450 authorized Arrowhead Manor Water Company Inc. to utilize the Safe Drinking Water Bond Act Loan surcharge funds of \$40,000, on an emergency basis, for purchased water and emergency repair expenses.
10. Arrowhead Manor Water Company Inc. is currently under an "exclusive right to negotiate" with the County of San Bernardino. The exclusive right status is set to expire on December 1, 2005.
11. Three billing complaints have been received and resolved during the last twelve months.
12. Service appears to be satisfactory at this time and there does not appear to be any service problems requiring corrective action.
13. Arrowhead Manor Water Company does not have any outstanding Department of Health Services water testing or compliance issues.
14. Ordering Paragraph No. 4 of Decision 00-07-036 and Ordering Paragraphs Nos. 3 and 9 of Decision 02-07-009 are still in effect.
15. Arrowhead Manor Water Company, Inc. shall file a General Rate Case within 180 days of this resolution if the sale to the County fails to materialize.
16. Arrowhead Manor Water Company, Inc. shall report the results of the Safe Drinking Water Bond Act Loan surcharge diversion, as authorized in Resolution W-4450, to the Water Division within 90 days of the effective date of this resolution.
17. The Commission finds, after investigation by the Water Division, that the rate increase hereby authorized is justified, and that the resulting rate is just and reasonable.

18. The Commission finds, after investigation by the Water Division, that the rate increase hereby authorized is justified, and that the resulting rate is just and reasonable.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 for Arrowhead Manor Water Company, Inc. to make effective the revised rate Schedules Nos. 1A, Annual Metered Service; and 2RA, Annual Residential Flat Rate Service, attached to Advice Letter No. 59-W, and to cancel its present effective rate schedules. The effective date of the revised rate schedules shall be five days after the date of this resolution.
2. Arrowhead Manor Water Company Inc. is directed to continue maintaining a balancing account as required by Public Utilities Code Section 792.5 and memorandum accounts as required by Decision No. 00-07-036.
3. Arrowhead Manor Water Company, Inc. shall be considered a Class D Water Utility as it has fewer than 500 service connections.
4. Arrowhead Manor Water Company, Inc. shall file a General Rate Case within 180 days of this resolution if the sale to the County fails to materialize.
5. Arrowhead Manor Water Company, Inc. shall report the results of the SDWBA Loan surcharge diversion, as authorized in Resolution W-4450, to the Water Division within 90 days of the effective date of this resolution.
6. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on December 15, 2005. The following Commissioners approved it:

STEVE LARSON
Executive Director

MICHAEL R. PEEVEY
President
GEOFFREY F. BROWN

Resolution No. W-4575
Arrowhead/AL 59-W/SNR/PTL/LTR/jlj

December 15, 2005

SUSAN P. KENNEDY
DIAN M. GRUENEICH
JOHN A. BOHN
Commissioners